

MacroVantage

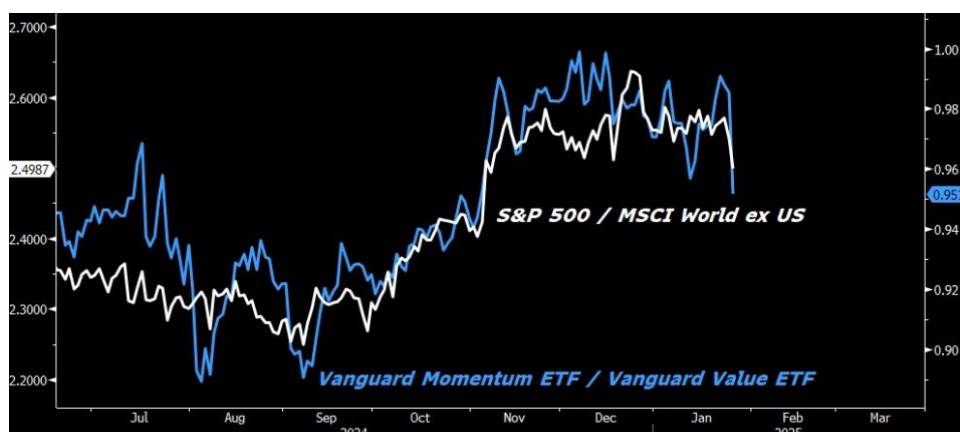
Quant insight

Uncover price dislocations, trade opportunities, regime shifts and sensitivity analysis across asset classes

1. **US Exceptionalism at risk**
2. **COPX – efficient cyclical long**
3. **Government bonds – where next?**
4. **European bulls should favour Tech over Luxury**
5. **XLK vs. SPY – tactically oversold**
6. **GBP – worst G7 currency in 2025**

1. US Exceptionalism at risk = Momentum at risk relative to Value = Risk to Dollar

Earlier this week we wrote a note questioning if US exceptionalism was now at risk. Technically, the US bull market started in 2023 following the >20% correction in 2022. Incidentally, soon after the release of ChatGPT in Nov22. History may not repeat but the third year of a bull market is associated with single digit returns. Couple this with an equity risk premium at 20yr lows, Trump policy execution uncertainty and now it seems question marks on what multiples to pay for Tech given the DeekSeek news.



If we are in a single digit US equity return world, RoW has room to outperform. Consider that when the US is up 20% no one cares about RoW. When the US is down 20%, you sell everything. So, in a single digit return world, do we have room for RoW?

With this in mind, we note that the relative performance of the S&P500 vs. MSCI World ex US is synonymous with the relative performance of Momentum vs. Value. See the first chart below.

Delving further, Qi's models shows that Momentum is a bet on higher real rates, higher dollar, higher economic growth – it is the style synonymous with the Trump boom trade. See the following 2 chart charts below highlighting these relationships. The dollar will play a clear role in determining if US exceptionalism is indeed at risk.



2. COPX – efficient cyclical long

Reversal or rotation? Does DeepSeek blow up a richly valued tech sector &, by extension, threaten the broader US equity market? Or is this a micro story – it hurts Nvidia, but cheaper access helps plenty of end users of generative AI & therefore the broader economy?

For those who believe in rotation, the copper miners ETF COPX now sits 11.7% cheap to our model. Overall macro conditions are moving sideways within a broad range.



The miners were hit hard this week as President Trump threatened to include copper, aluminium & steel amongst the areas where he would impose tariffs.

There is no escaping the volatility a Trump presidency brings. Policy announcements will come thick-&-fast via social media posts. Markets will gap up & down accordingly.

The only thing investors can do is stick to a framework where they identify what they like over the medium to long term. And then await a headline to provide an attractive entry level. We may have that now with COPX.

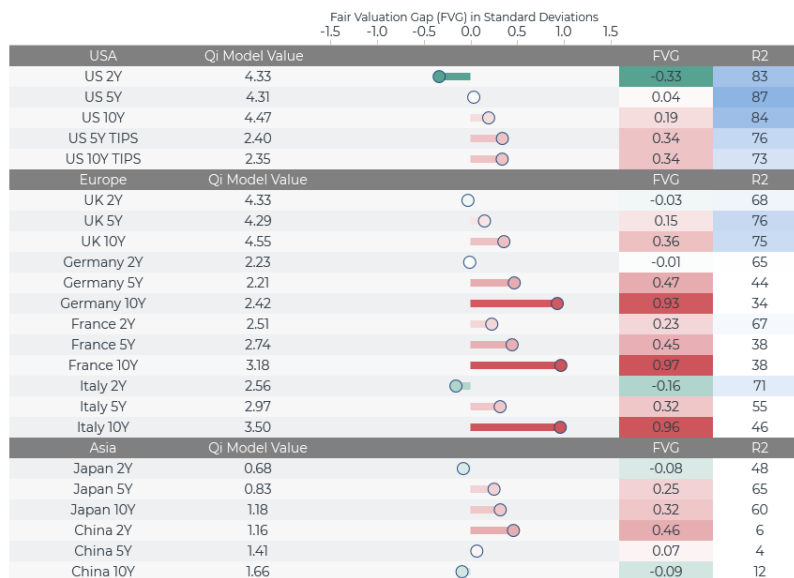
3. Government bonds – where next?

The question of whether the DeepSeek story is a macro or micro shock is critical for bond investors. Monday’s equity sell-off prompted a sharp safe-haven driven rally in govies. Is that justified?

Qi’s models for government bonds includes economic fundamentals (the growth / inflation outlook) plus measures of risk appetite. That provides an instant ready reckoner of where markets are priced relative to both dynamics.

Qi Government Bonds Fair Value Table

Green FVG: Yields too low vs. macro
Red FVG: Yields too high vs. macro



Source: Macrobond

Right now:

- the most effective trade for bond bears looking to fade this week’s move is in 2y USTs where yields sit 0.3 sigma (12bp) below macro fair value.
- hard “risk off” proponents should look at 10y Bunds where yields sit 0.9sigma (15bp) too high to aggregate macro conditions.
- a risk off “lite” scenario favours 10y OATs & BTPs. For yield hungry investors, the FVG for both 10y French & Italian bonds looks similar to Bunds – almost 1 sigma too high.

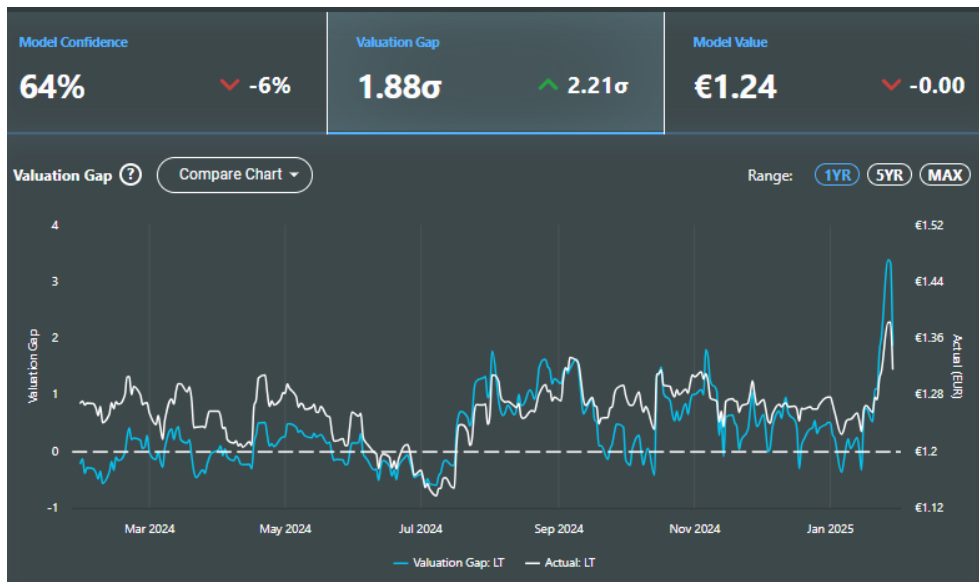
4. European Bulls should favour Tech over Luxury

Since the US election, the best performing sector in Europe is SXQP – personal & household goods – dominated by luxury goods. Banks and Technology have also outperformed but the relative winner has been European luxury goods. However, the most recent results of LVMH saw overall Q4 revenues only rise 1% y/y. Sales in the region that included China fell 10% y/y. While recurring operating income missed estimates. The result is that the stellar performance of the sector relative 12mth fwd earnings expectation is likely now questioned.



The same disconnect between price and earnings is not seen for technology names. We posed the question in our note earlier in the week if Trump is actually a catalyst for RoW to act more forcefully on investment in AI to maintain competitiveness, particularly in light of the Stargate initiative.

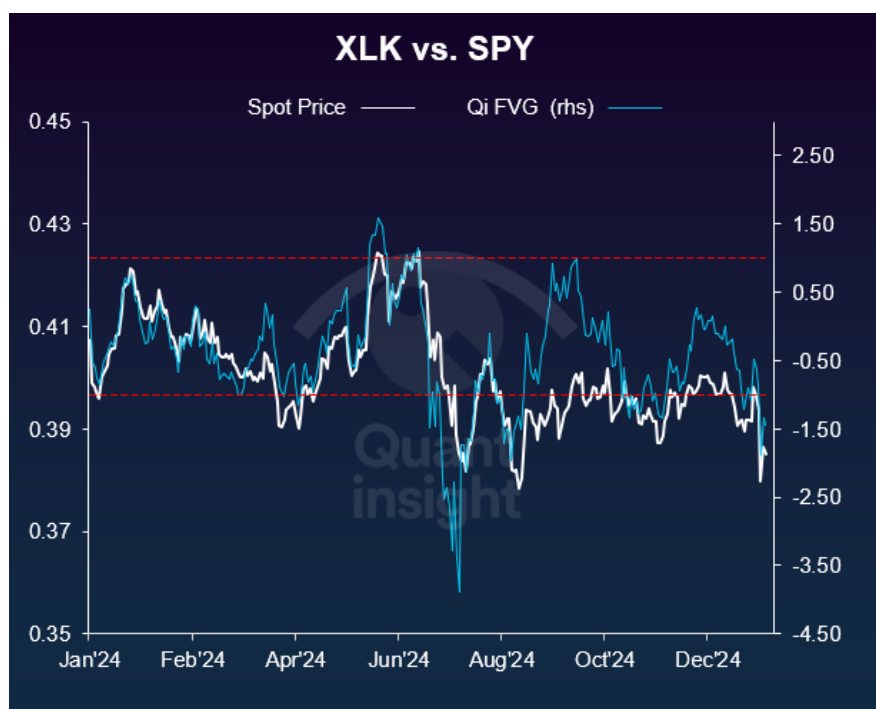
Scanning Qi's models, we see a large disconnect open up in the macro warranted valuations of SXQP relative to SX8P (Technology sector). The valuation gap of SXQP vs. SX8P is at +1.9 sigma. The mean-reverting relationship of the FVG to the price relative has remained intact over the year, implying that European bulls here should favour Tech over Luxury.



5. XLK vs. SPY – tactically oversold

Any focus on Technology stocks inevitably requires a focus on the US outlook. On Qi, screening US sectors versus the broader market, the cheapest RV pair currently is XLK vs. SPY.

It sits 1.5 sigma (3.7%) cheap. Qi model value has been flatlining in January, so the DeepSeek sell-off looks like it has overshot somewhat relative to macro fundamentals. Decent correlation between the RV pair & Qi's FVG suggests there's scope for a profitable mean reversion.



6. GBP – worst G7 currency in 2025

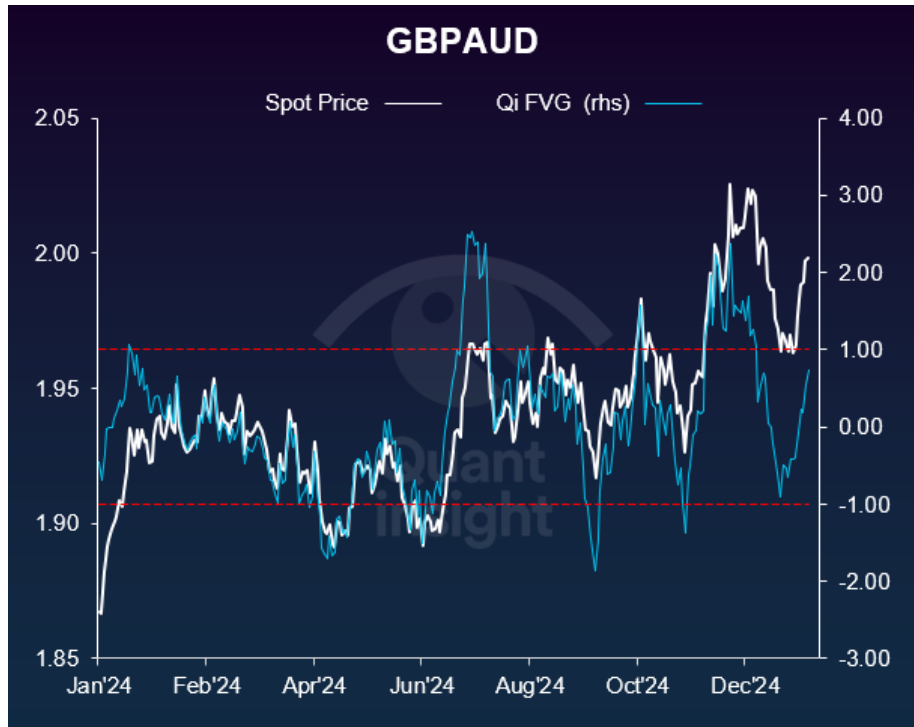
The mood music in the UK remains downbeat – the post Budget fallout for jobs & growth continues to weigh despite the government's attempts to talk a positive game. The latest bearish narrative comes from the weak Pound (the worst performing major currency year-to-date) & its potential to make imported inflation worse & limit the BoE's ability to cut rates.

| Model Name ▲ | Confidence(%) ▲ | Val Gap | Val Gap (σ) ▲ | |
|------------------------|-----------------|---------|---------------|--|
| GBPUSD | 82% | -2.68% | -1.25 | |
| GBPJPY | 61% | -3.01% | -1.16 | |
| GBPCAD | 45% | -0.95% | -0.63 | |
| GBPNOK | 21% | -0.86% | -0.46 | |
| GBPCHF | 66% | -0.54% | -0.41 | |
| GBPSEK | 34% | -0.42% | -0.29 | |
| GBPNZD | 45% | 0.46% | 0.22 | |
| EURGBP | 9% | 0.79% | 0.71 | |
| GBPAUD | 38% | 1.20% | 0.74 | |

On Qi, Sterling screens as cheap versus its peers. Cable especially which sits over 1 standard deviation below model fair value.

Over q4 last year Qi model value for Cable fell 4.7% but macro momentum is turning. Model value bottomed on Jan 15th & has bounced 3% since then. In short, there's a fair amount of bad news already priced in & macro conditions are showing signs of improving.

High conviction bears determined to overrule a quantitative framework should look at GBPAUD rather than Cable. Aussie is another unloved currency in 2025 – proximity to China & RBA rate cuts tend to dominate qualitative commentary.



On our metrics GBPAUD is the one G7 cross where Sterling screens as rich. The FGV is +0.74 (+1.2%). The chart below overlays spot with the Qi FVG - it shows the Valuation Gap can extend further, but a strong correlation suggesting its done a decent job of capturing local highs & lows.

Disclaimer

This document is being sent only to investment professionals (as that term is defined in article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 ("FPO")) or to persons to whom it would otherwise be lawful to distribute it. Accordingly, persons who do not have professional experience in matters relating to investments should not rely on this document. The information contained herein is for general guidance and information only and is subject to amendment or correction. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

This document is provided for information purposes only, is intended for your use only, and does not constitute an invitation or offer to subscribe for or purchase any securities, any product or any service and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document does not constitute any recommendation regarding any securities, futures, derivatives or other investment products. The information contained herein is provided for informational and discussion purposes only and is not and, may not be relied on in any manner as accounting, legal, tax, investment, regulatory or other advice.

Information and opinions presented in this document have been obtained or derived from sources believed to be reliable, but Quant Insight Limited (Qi) makes no representation as to their accuracy or completeness or reliability and expressly disclaims any liability, including incidental or consequential damages arising from errors in this publication. No reliance may be placed for any purpose on the information and opinions contained in this document. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this document by any of Qi, its employees or affiliates and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions. Any data provided in this document indicating past performance is not a reliable indicator of future returns/performance. Nothing contained herein shall be relied upon as a promise or representation whether as to past or future performance.

This presentation is strictly confidential and may not be reproduced or redistributed in whole or in part nor may its contents be disclosed to any other person under any circumstances without the express permission of Quant Insight Limited.